

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6099

BILL NUMBER: SB 13

NOTE PREPARED: Jan 20, 2011

BILL AMENDED: Jan 18, 2011

SUBJECT: Income Tax Withholding.

FIRST AUTHOR: Sen. Boots

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that beginning in 2012, an individual may elect to have state income tax and local income tax withheld from unemployment compensation received by the individual.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR may incur additional expenses to produce new employer withholding instructions and to revise tax forms and computer programs to reflect the allowance of individuals to elect to have state and local income tax withheld from unemployment compensation. The DOR's existing resources should be sufficient to make these changes.

Department of Workforce Development (DWD): The DWD would incur administrative expenses to provide the option of having state and local income taxes withheld to individuals receiving unemployment compensation. Changes will need to be made to the processing system, as the current system does not have the capability to handle state and local income tax withholding. Participation in state and local income tax withholding would be voluntary and would be part of the unemployment benefit claim filing process.

Explanation of State Revenues: (Revised) *Summary* - Currently, the state allows federal taxes to be withheld from benefits. By allowing for the voluntary election to withhold state and local income taxes, unemployed individuals will have paid the necessary state and local withholding before they file their annual taxes, allowing them to avoid potential penalty and interest payments. Allowing the election of withholding state and local income taxes from unemployment benefits may accelerate the collection of state and local income taxes.

In CY 2009, there were 317,858 Indiana residents who elected to have federal taxes withheld from their benefits. This amounted to about 64% of total Indiana residents receiving unemployment compensation. The number of Indiana residents receiving unemployment compensation that will elect to have state and local income taxes withheld is unknown. For those who choose to enroll, the weekly benefit amount will be withheld at the applicable rates prescribed in the withholding instructions issued by the DOR.

Background Information - Unemployment benefits are based on total wages earned during the base period. In Indiana, the minimum amount paid per week in unemployment benefits is \$50, while the maximum amount is \$390.

The Unemployment Insurance Benefit Fund paid \$1.3 B in benefits and received revenue of \$569.3 M in FY 2010. As of November 2, 2010, Indiana has borrowed about \$1.8 B from the federal government to pay unemployment benefits.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; DWD.

Local Agencies Affected:

Information Sources: Michelle Marshel, DWD, 317-233-1463; United States Department of Labor, Trust Fund Loans,
<http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans>.

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